

A meeting of the Board of Governors of the Federal Reserve System was held in Washington on Tuesday, June 13, 1939, at 2:30 p.m.

PRESENT: Mr. Ransom, Vice Chairman  
Mr. Szymczak  
Mr. McKee  
Mr. Draper

Mr. Morrill, Secretary  
Mr. Bethea, Assistant Secretary  
Mr. Clayton, Assistant to the Chairman  
Mr. Wyatt, General Counsel  
Mr. Paulger, Chief of the Division of  
Examinations  
Mr. Smead, Chief of the Division of Bank  
Operations  
Mr. Dreibelbis, Assistant General Counsel  
Mr. Vest, Assistant General Counsel  
Mr. Wingfield, Assistant General Counsel  
Mr. Leonard, Assistant Chief of the  
Division of Examinations

Mr. Ransom stated that early in April he received a telephone call from one of the secretaries in the office of Senator Glass asking that the record of service of Mrs. Maria D. Miles, a file clerk in the Secretary's office, be reviewed for the purpose of deciding if her salary should be increased. He said that he had drawn the matter to the attention of the Board's Personnel Committee in a memorandum dated April 15, 1939, with which he transmitted memoranda received by him from the Secretary's office reviewing Mrs. Miles' case. He also stated that under date of May 25 the Personnel Committee had advised him that it had given careful consideration to the salary of Mrs. Miles and that, while it had not approved and did not recommend a salary increase, it asked that the matter be placed on the docket for consideration of the full Board.

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Following a brief discussion, the Board referred the matter back to the Personnel Committee with a request that it submit a recommendation to the Board with respect thereto.

There was presented a letter dated June 2, 1939, from Mr. Sproul, First Vice President of the Federal Reserve Bank of New York, recommending that the employment of Walter B. Matteson, Assistant Vice President of the bank, be extended for an additional month, i.e., through July 31, 1939. It was explained that the New York bank had found it necessary to retain Mr. Matteson on active duty for the full period of six months beyond the date on which he was to have been retired, such extension having previously been authorized by the Board, and that the bank was now recommending this further extension of his employment in order that he might be given a month's vacation prior to his retirement. Chairman Eccles, upon receiving the letter, had suggested that the matter be placed on the docket for consideration at a meeting.

Mr. McKee called attention to the fact that the New York bank could under the existing policy supplement Mr. Matteson's retirement allowance by a cash contribution and that it was likely, judging from past experience, that such action would be taken. Mr. Ransom expressed the view that it might be well to suggest informally to the New York bank that Mr. Matteson be allowed to take his vacation beginning immediately and that the period of his employment be not extended beyond

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June 30, 1939.

A discussion ensued during which the members of the Board agreed unanimously that the matter should be referred to Mr. Szymczak in order that he might discuss it informally with President Harrison of the Federal Reserve Bank of New York and submit a recommendation to the Board as to the action to be taken.

Consideration was then given to a letter dated June 6, 1939, from Mr. Walter Lichtenstein, Secretary of the Federal Advisory Council, requesting that the Board excuse the Council from further consideration of the topic "How Can the Federal Reserve System Increase the Value or Scope of its Services to Member Banks in Practicable or Desirable Ways?" in view of the inability of the members of the Council to agree unanimously upon identical reasons for its conclusions upon a number of the answers submitted to specific questions under this general topic.

It was the consensus of the members of the Board in attendance at the meeting that, in view of the apparent inability of the Council to reach an agreement as to the reasons underlying the conclusions which it had previously expressed to the Board, it should accede to the request of the Council.

Accordingly, the Board requested the Secretary to prepare for its consideration an appropriate reply to Mr. Lichtenstein's letter.

Reference was made to the action taken at the meeting of the Board on May 19, 1939, approving a letter to the Chairman of the Senate



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Committee on Banking and Currency reporting the views of the Board with respect to the merits of the Gillette Bill (S. 2035), "A bill to authorize the establishment of certain bank offices in communities which have no banking facilities", with the understanding that Mr. Ransom would discuss the report with the Comptroller of the Currency and that in the absence of any objection on the part of the Comptroller it would be released.

Mr. Ransom stated that he had taken the matter up with the Comptroller and that Mr. Delano had advised him that he did not see any objection from the standpoint of his office to the Board making the report in question, that the report did not exactly express the position that his office might take if it were reporting on the bill, but that in so far as the Board's report referred to national banks his office saw no objection to the report being filed in its present form. Mr. Ransom said that he had asked that the matter be brought up again at this meeting merely for the purpose of obtaining the Board's approval of the report in the light of Mr. Delano's comments. It was pointed out in this connection that the action taken on May 19 contemplated that, after the letter is sent to Senator Wagner, Mr. Davis would call on Senator Gillette, who was not a member of the Senate Committee on Banking and Currency, and hand him a copy of the report for his confidential information.

Upon motion by Mr. McKee, the Board  
by unanimous vote approved the letter to

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Senator Wagner, Chairman of the Senate Committee on Banking and Currency, in the same form as set forth in the minutes of May 19, with the understanding that the Secretary's office would communicate with Mr. Davis by telephone in order to ascertain whether he had any suggestions regarding the matter before the letter was released.

(Secretary's Note: On June 14, 1939, Mr. Davis was reached by telephone in Boston and advised of the above action taken by the Board and the substance of Mr. Ransom's conversations with the Comptroller of the Currency. Mr. Davis said that he felt the letter to Senator Wagner should be released without further delay and that it would be satisfactory to him if a copy were held in his office until his return so that he might personally hand it to Senator Gillette, in accordance with the understanding reached at the meeting of the Board on May 19, at as early a date as may be convenient. Accordingly, the letter to Senator Wagner was placed in the mails.)

Mr. McKee referred to his memorandum of June 2, 1939, which had been circulated among the members of the Board prior to the meeting, relating to the report of examination of the Federal Reserve Bank of Kansas City made as of April 5, 1939. He stated that the Division of Examinations had called attention to the frequency of committee meetings involving attendance of directors at the Kansas City bank. He said that, since the new chairman of the board of directors of the bank resides in Kansas City, he felt careful consideration should be given to the question whether this is not the proper time to call the

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chairman to Washington and explain to him the Board's attitude on this subject. He added that he had withheld approval of a proposed letter to the bank in the absence of Mr. Szymczak in order that the questions involved might receive consideration by the entire Board.

Mr. Ransom referred to a somewhat similar situation at the Federal Reserve Bank of Atlanta and suggested that, while the meetings of the discount committee of the Atlanta bank may not have been held as often as at the Kansas City bank, a decision should be reached on the broad question of policy and should be applicable to all Federal Reserve banks where a similar situation exists.

Mr. McKee referred to the correspondence which had passed between the Board and the Federal Reserve Bank of Kansas City during the latter part of December 1937 and to the fact that the Board in a letter dated January 10, 1938, advised the Kansas City bank that the Board interposed no objections to the amendments to the bank's by-laws submitted at that time on the understanding that the matter would be reconsidered whenever a new chairman and Federal Reserve agent was designated.

The matter was discussed at length and it was agreed unanimously that the problem should be referred to Mr. Szymczak for consideration and submission of a recommendation to the Board. It was understood that Mr. Szymczak would explore the matter from a policy standpoint and that



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his recommendation should be broad enough to apply to the Federal Reserve Bank of Atlanta and any other Reserve bank following a practice similar to that in effect at the Federal Reserve Bank of Kansas City.

Mr. McKee called attention to a memorandum dated June 7, 1939, addressed to the Board by Mr. Vest, Assistant General Counsel, which had been placed in circulation for the information of the members of the Board and was accompanied by correspondence which had been exchanged between the Board's General Counsel and Mr. Dunn, General Counsel for the Federal Reserve Bank of Chicago, regarding a situation which had recently arisen at the Detroit Branch with respect to the collection of items drawn on local banks. Mr. McKee stated that the memorandum had been routed to him first in the absence of Mr. Szymczak and that, in view of the broad questions of policy involved he had on Saturday, June 10, called Mr. Buss, Managing Director of the Detroit Branch, in order to obtain further information.

Mr. Ransom stated that he and Mr. Szymczak were at the Chicago bank at the time and that President Schaller had acquainted them in a general way with the situation.

Mr. McKee reported the substance of his conversation with Mr. Buss and at the conclusion of a general discussion it was agreed that Messrs. Szymczak and McKee would consider what action, if any, should be taken at this time, particularly in the light of the pending revision of the Board's Regulation J and of the uniform check collection circulars issued by the Federal Reserve banks pursuant thereto.

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Mr. McKee referred to the action taken by the Board on March 8, 1939, in referring to Chairman Eccles and him with power to act, the question whether Congress should be requested to make permanent the authority granted to the Board of Governors by the second paragraph of section 16 of the Federal Reserve Act to permit the Federal Reserve banks to pledge Government securities as collateral for Federal Reserve notes. He also referred to the Chairman's report to the Board at its meeting on May 26, 1939, that he had indicated to Senator Glass, who is chairman of the subcommittee of the Senate Committee on Banking and Currency which would handle the matter, that he (Chairman Eccles) would like to discuss the matter with him, and that the Senator had agreed to communicate with him regarding it but had subsequently become ill and no opportunity had since been afforded him to present the matter to the Senator. Mr. McKee stated that he understood the Chairman had contacted Senator Glass' office a number of times since that date but had been unable to arrange to see the Senator. He said that on yesterday he (Mr. McKee) had been called to Senator Glass' office and that the Senator referred to the foregoing proposed legislation, as well as S. 1886, "An Act to extend to June 16, 1942, the period within which certain loans to executive officers of member banks of the Federal Reserve System may be renewed or extended".

Mr. McKee said that, since he shared the responsibility with Chairman Eccles for obtaining a continuance of the authority which



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expires on June 30, 1939, for the pledging of direct obligations of the United States as collateral security for Federal Reserve notes, he desired to report his conversation with Senator Glass; the substance of which was that the Senator is willing to introduce a bill extending such authority if he is furnished with a draft of the proposed legislation. Mr. McKee stated that, in view of the fact that Chairman Eccles has been unable to discuss the matter with Senator Glass personally, he would like to see the Board send a letter to Senator Wagner, Chairman of the Senate Committee on Banking and Currency, with a copy or an identical letter to Senator Glass, recommending that the proposed legislation be enacted. He indicated, as did Mr. Ransom, that he felt it would be desirable to obtain the enactment of legislation continuing the existing authority before the expiration date of the provision in the existing law. Mr. Ransom, however, said that the Chairman desired to discuss the matter personally with Senator Glass, and that he felt that it would be preferable for the Chairman to hand a copy of the proposed bill to the Senator or, for that matter, to send a copy informally to the Senator's office.

At the conclusion of the discussion, it was agreed that Mr. Clayton should discuss the matter promptly with Chairman Eccles with the view to giving it the direction suggested by Mr. Ransom.

Mr. McKee reported also that among other things the Senator had explained the legislative situation in regard to a House amendment

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to S. 1886 which would repeal the provision of existing law that banks with deposits of \$1,000,000 or more cannot be insured after July 1, 1942 unless they are members of the Federal Reserve System. Mr. Ransom stated that he did not think the Board should oppose the amendment.

Mr. McKee concurred.

Mr. McKee stated that at the meeting on May 19, 1939, the Board had requested that he discuss with Mr. Leo Crowley, Chairman of the Federal Deposit Insurance Corporation, the desirability of reducing the maximum rates of interest prescribed by the Board's Regulation Q which may be paid by member banks on time and savings deposits. He said that in accordance with this action of the Board he had talked with Mr. Crowley on this subject, that Mr. Crowley was in sympathy with the idea that some action in that direction should be taken, and that he would be glad to come over and discuss the matter with the Board.

Mr. McKee inquired whether the Board wished to meet with Mr. Crowley for this purpose and at the suggestion of Mr. Ransom it was agreed unanimously that Mr. Crowley and the other members of the board of directors of the Federal Deposit Insurance Corporation be invited to meet with the Board of Governors and the Secretary was requested to contact Mr. Crowley for the purpose of extending an invitation for such a meeting and setting a date which would be mutually agreeable.

Mr. McKee referred to the fact that the copy of the monthly statement showing the status of matters in the hands of members of the Board which were still under consideration as of June 2,

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1939, showed that he and Mr. Draper were to give further consideration and submit a recommendation to the Board with regard to the memorandum prepared by Counsel relating to section 8 of the Clayton Act and a suggested revision of that section. Mr. McKee pointed out that since legislation was now pending before Congress (S. 2150, which was favorably reported on by the Senate Committee on Banking and Currency on June 12, 1939) to extend from February 1, 1939, to February 1, 1944, the period during which a director, officer, or employee of a member bank of the Federal Reserve System, or any branch thereof, who was lawfully serving on August 23, 1935, as a private banker or as a director, officer, or employee of any other banking institution or branch thereof, may continue such service, it did not appear that any good purpose would be served by giving further consideration to the memorandum referred to at this time. He suggested, therefore, that he and Mr. Draper be relieved of the above assignment and that the matter be eliminated from the monthly statement of matters which are still under consideration.

Accordingly, it was agreed unanimously that the action suggested by Mr. McKee should be taken.

At the request of Mr. Ransom, Mr. Wingfield reported briefly on the revised draft of H. R. 5220, "A bill to provide for the regulation of the sale of certain securities in interstate and foreign



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commerce and through the mails, and the regulation of the trust indentures under which the same are issued and for other purposes", introduced by Representative Cole on March 22, 1939. It had been pointed out in a memorandum prepared by Mr. Wingfield under date of March 29, 1939, that H. R. 5220, in general, follows Confidential Committee Print No. 2 of the Barkley bill (S. 477) on which the Board reported to Senator Wagner under date of March 4, 1939. Mr. Wingfield said that a number of changes had been made in the bill to make it more workable and that a large amount of the discretion left in the Securities and Exchange Commission by the earlier draft had been eliminated. He pointed out, however, that the Securities and Exchange Commission under the revised bill would still have to go over each indenture and compare it with the requirements of the bill. Mr. Wyatt called attention to the fact that the several pages dealing with conflicting interests remain in the revised bill. In conclusion Mr. Wingfield said that the revised draft was an improvement over the earlier draft in that it was more specific in many respects but that this resulted in a great deal of detail being incorporated in the bill. Attention was called to the fact that the Committee on Interstate and Foreign Commerce of the House of Representatives had not adopted any of the suggestions regarding overlapping supervision of banks contained in the Board's report to that committee with respect to this legislation.

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At this point Messrs. Wyatt, Paulger, Smead, Dreibelbis, Vest, Wingfield and Leonard left the meeting and the action stated with respect to each of the matters hereinafter referred to was then taken by the Board, Chairman Eccles who was not available when the meeting convened participating:

The minutes of the meeting of the Board of Governors of the Federal Reserve System held on June 12, 1939, were approved unanimously.

Letter to Mr. Leach, President of the Federal Reserve Bank of Richmond, reading as follows:

"In accordance with your recommendation, the Board approves the establishment and operation by the 'Wachovia Bank & Trust Company', Winston Salem, North Carolina, of a branch at Charlotte, North Carolina, upon the consummation of the proposed plan of the Wachovia Bank & Trust Company to purchase the assets and assume the liabilities of 'The Charlotte National Bank', Charlotte, North Carolina.

"From the information submitted it has been noted that the purchase of assets and assumption of liabilities of The Charlotte National Bank by the Wachovia Bank & Trust Company will not result in any material change in the character of assets or scope of corporate powers exercised by the trust company within the meaning of the general condition under which it was admitted to membership and, accordingly, the approval of the Board to the acquisition of the business of the national bank is not required.

"It has been noted in the report of examination as of March 6, 1939, that The Charlotte National Bank held three issues of corporate stock in its investment account. As you know, member banks are prohibited from purchasing corporate stocks and it is suggested that you advise the bank that such stocks should be disposed of prior to the conclusion of the transaction or as soon thereafter as practicable.

"As indicated in your letter, the consolidation of the two banks will improve the ratio of capital structure to deposits of the Wachovia Bank & Trust Company. However,

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"it has been noted that after the consummation of the transaction the capital structure of the trust company will still be low in relation to its deposit liabilities. In previous correspondence relative to this bank you have indicated that the management of the bank, as well as the Commissioner of Banks, recognized the desirability of having additional capital and it is suggested that you advise the management that its constant and vigorous attention to strengthening the bank's capital structure is anticipated."

Approved unanimously.

Memorandum dated June 9, 1939, from Mr. Foulk, Fiscal Agent, recommending that an assessment of two hundred and fifty-nine thousandths of one per cent (.00259) of the total paid-in capital and surplus (Section 7 and Section 13b) of the Federal Reserve banks as of the close of business June 30, 1939, be levied to cover the general expenses of the Board during the last six months of 1939, and that the Federal Reserve banks be instructed to pay in the assessment in two equal installments on July 1, 1939, and September 1, 1939.

The following resolution levying an assessment in accordance with the Fiscal Agent's recommendation was adopted by unanimous vote:

"WHEREAS, Section 10 of the Federal Reserve Act, as amended, provides, among other things, that the Board of Governors of the Federal Reserve System shall have power to levy semiannually upon the Federal Reserve banks, in proportion to their capital stock and surplus, an assessment sufficient to pay its estimated expenses and the salaries of its members and employees for the half year succeeding the levying of such assessment, together with



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"any deficit carried forward from the preceding half year, and

"WHEREAS, it appears from a consideration of the estimated expenses of the Board of Governors of the Federal Reserve System that for the six months' period beginning July 1, 1939, it is necessary that a fund equal to two hundred and fifty-nine thousandths of one per cent (.00259) of the total paid-in capital stock and surplus (Section 7 and Section 13b) of the Federal Reserve banks be created for such purposes, exclusive of the cost of printing, issuing and redeeming Federal reserve notes;

"NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THAT:

"(1) There is hereby levied upon the several Federal Reserve banks an assessment in an amount equal to two hundred and fifty-nine thousandths of one per cent (.00259) of the total paid-in capital and surplus (Section 7 and Section 13b) of each such bank at the close of business June 30, 1939.

"(2) Such assessment shall be paid by each Federal Reserve bank in two equal installments on July 1, 1939, and September 1, 1939, respectively.

"(3) Every Federal Reserve bank except the Federal Reserve Bank of Richmond shall pay such assessment by transferring the amount thereof on the dates as above provided through the Inter-district Settlement Fund to the Federal Reserve Bank of Richmond for credit to the account of the Board of Governors of the Federal Reserve System on the books of that bank, with telegraphic advice to Richmond of the purpose and amount of the credit, and the Federal Reserve Bank of Richmond shall pay its assessment by crediting the amount thereof on its books to the Board of Governors of the Federal Reserve System on the dates as above provided."

Memorandum dated June 8, 1939, from Mr. Smead, Chief of the Division of Bank Operations, submitting a letter dated June 7 from Mr. Rounds, Vice President of the Federal Reserve Bank of New York, which requested approval by the Board of a change in the personnel classification plan of the bank to provide for a transfer of the position

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"Foreign Analyst" from the Foreign Department, Foreign Exchange Division, Reports Section to the Research Department, Foreign Research Division and a minor change in the description of work for such position. The memorandum stated that the proposed change had been reviewed and recommended that it be approved.

Approved unanimously.

Thereupon the meeting adjourned.

Whester Morrie  
Secretary.

Approved:

Franklin  
Vice Chairman.